

Message Text

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PAGE 01 TEGUCI 00898 01 OF 02 241853Z

ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 FPC-01 H-01 INR-07 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 PRS-01 PA-01 OPIC-03
/099 W

-----241945 031298 /46

R 241805Z FEB 77

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 5871

LIMITED OFFICIAL USE SECTION 1 OF 2 TEGUCIGALPA 0898

E.O. 11652: NA

TAGS: EINV, ENRG, HO

SUBJECT: REFINERIA TEXACO, S.A. (REFTEXSA)

REF: (A) STATE 024334, (B) TEGUCIGALPA 0581

SUMMARY: DECREE ISSUED LAST WEEK RAISING FUEL PRICES ABOLISHES ONEROUS STABILIZATION LEVY AND PLACES BURDEN OF RECENT OPEC CRUDE HIKE ON GASOLINE AND JET FUEL USERS. WHILE PRICE INCREASES ON THESE FUELS ARE SUBSTANTIAL, MARGINS ALLOWED TEXACO ARE HALF THOSE REQUESTED DUE TO MAINTENANCE OF DIESEL AND KEROSENE BELOW WORLD PRICES. ECONMIN DIAZ ENGAGED IN HIS USUAL POLEMICS AGAINST TEXACO IN ANNOUNCING PRICE ACTION TO PRESS. TEXACO IS PLEASED TO BE IN THE BLACK, BUT FORESEES RE-EMERGENCE OF PRICE SQUEEZE FROM LIKELY SHIFTS IN CONSUMPTION DUE TO ABNORMAL PRICING AND FROM PERIODIC UPWARD CRUDE PRICE REVISIONS BY VENEZUELA. HAD DIAZ INVITED TEXACO (CORAL GABLES) OFFICERS BACK FOR FURTHER TALKS AS PROMISED PRIOR TO FINAL PRICE ACTION MORE REALISTIC PRICING MIGHT HAVE BEEN POSSIBLE. END SUMMARY

1. GOH MINISTRY OF ECONOMY LAST WEEK PROMULGATED A DECREE RAISING WHOLESALE AND RETAIL PRICES OF PETROLEUM PRODUCTS IN LIMITED OFFICIAL USE

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PAGE 02 TEGUCI 00898 01 OF 02 241853Z

HONDURAS AND ABOLISHING THE SO-CALLED STABILIZATION FUND LEVY. RETAIL PRICES OF PREMIUM AND REGULAR GAS AND JET FUEL WERE INCREASED BY 12.5, 11.5, 8.0 CENTS (US) TO \$1.125, \$1.06, \$.658, RESPECTIVELY. FUEL OIL WAS RAISED 3.25 CENTS (WHOLESALE) TO \$.6241. DIESEL AND KEROSENE PRICES WERE LEFT UNCHANGED. RESULTANT PRICES OF GASOLINE AND JET FUEL REPORTEDLY ARE ABOVE, AND DIESEL AND KEROSENE ARE BELOW WORLD MARKET PRICES. GASO-

LINE AND JET FUEL USERS THUS WILL BEAR THE BRUNT OF THE DECEMBER 1976 OPEC PRICE INCREASES. DIESEL AND KEROSENE ARE, IN EFFECT, SUBSIDIZED AT LOW PRICES OF \$.54 AND \$.495. ACCORDING TO MINECON SOURCES, THE ANNUAL IMPACT OF THESE INCREASES AT CURRENT CONSUMPTION LEVELS IS \$6.5 MILLION, \$5.15 MILLION OF WHICH IS SHIFTED TO THE CONSUMER WITH THE ELIMINATION, ALSO, OF THE STABILIZATION LEVY.

2. AT PRESS CONFERENCE ANNOUNCING THESE ACTIONS ECONMIN VICENTE DIAZ SAID THE GOH WAS GUIDED BY THE PRINCIPLE OF EQUITABLE DISTRIBUTION OF WEALTH IN SHIFTING BURDEN OF PRICE INCREASES TO THOSE PERSONS HAVING HIGHER INCOMES. HE ALSO EMPHASIZED THAT THE MINISTRY WAS OPPOSED TO CONCEDING ANY FUEL PRICE INCREASES EXCEPT THOSE ARISING FROM PERIODIC OPEC INCREASES. HE REFERRED IN THIS CONTEXT TO FREQUENT PETITIONS BY TEXACO (CONSEQUENT TO PERIODIC VENEZUELA CRUDE HIKES), ADDING THAT QUOTE WE BELIEVE IT IS A WHOLLY INTERNAL MATTER OF THE COMPANY TO ESTABLISH ITS COST LEVELS AND TO DETERMINE WHETHER THE (REFINING) ACTIVITY IS OR IS NOT PROFITABLE UNQUOTE. HE REPORTEDLY SAID ALSO THAT TEXACO WOULD ESTABLISH ITS POLICY AND DECIDE FOR ITSELF WHETHER TO CONTINUE TO REFINOIL IN THIS COUNTRY. IN CLOSING, DIAZ COMPLAINED-- AGAIN WITH PROBABLE REFERENCE TO TEXACO-- THAT "THESE CONSTANT REVISIONS IN OIL PRICES" WERE INTERFERING WITH HIS ATTENDING TO OTHER IMPORTANT ECONOMIC MATTERS.

3. W. W. MACDONALD, REFTEXSA SENIOR OFFICER, TOLD EMBOFF THAT TEXACO PRESENTLY IS STUDYING THE EFFECTS OF THE DECREE (NO. 31-77 OF FEBRUARY 11) AND COMMENTED AS FOLLOWS. THE COMPANY IS PLEASED THAT PRICE INCREASES RESULT IN MARGINS LIMITED OFFICIAL USE

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PAGE 03 TEGUCI 00898 01 OF 02 241853Z

WHICH COVER CRUDE SUPPLY AND REFINERY COSTS AND PERMIT SERVICING REFINERY CONSTRUCTION LOAN. MARGINS ARE HALF WHAT TEXACO REQUESTED, HOWEVER, AND DO NOT PERMIT REIMBURSEMENT FOR APPROXIMATE \$22 MILLION DEBT GENERATED BY PRICE SQUEEZE OF PAST FEW YEARS OR RETURN ON INVESTMENT. TEXACO IS DISAPPOINTED THAT MINISTER DIAZ DID NOT INVITE COMPANY OFFICERS JOHN JOHNSON AND WALTER CRAWFORD BACK AT MID-FEBRUARY AS PROMISED FOR RESUMPTION OF TALKS ON ADEQUATE PRICING. IF HISTORY OF PERIODIC VENEZUELA UPWARD CRUDE PRICE ADJUSTMENTS RECURS, TEXACO WOULD BE IN RED AGAIN IN SIX MONTHS. ABOLITION OF STABILIZATION LEVY RULES OUT POSSIBILITY OF RELIEF FROM SUCH INCREASES IN FUTURE. ABNORMALLY HIGH GAS AND JET FUEL PRICES AND LOW DIESEL PRICE COULD CAUSE SHIFTS IN CONSUMPTION PATTERNS AND THUS REDUCE REVENUES. SAHSA AIRLINE ALREADY HAS ADVISED THAT IT WILL PURCHASE JET FUEL IN MANAGUA. GOH STILL HAS NOT RESPONDED TO REFTEXSA REQUEST FOR TAX EXEMPTIONS OF ONE-TIME IMPORTATION OF FUELS EARLY THIS MONTH TO SUPPLY LOCAL MARKET WHILE IT CLOSES REFINERY FOR CLEANING AND REPAIRS. PROPOSED RESPONSE DESCRIBED BY FINMIN ZAVALA TO AMBASSADOR FEBRUARY 3 (PARAG 4, REF B) HAS

NOT BEEN DISCUSSED BY GOH WITH COMPANY.

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PAGE 01 TEGUCI 00898 02 OF 02 241856Z

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R 241805Z FEB 77

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 5872

LIMITED OFFICIAL USE SECTION 2 OF 2 TEGUCIGALPA 0898

4. EMBASSY IS COLLECTING MATERIALS REQUESTED BY DEPARTMENT IN
PARAG 2 REFTEL A AND EXPECTS TO AIRPOUCH MOST AND PROVIDE SOME
ANSWERS IN SEPTTEL YET THIS WEEK.

5. COMMENT: PRESSURE OF OTHER ECONOMIC ISSUES AND PROBLEMS
IN HIS MINISTRY MAY HAVE PROMPTED DIAZ TO STEP UP ISSUANCE OF
FUEL PRICE DECREE. ANTICIPATORY GAS HOARDING; DEMANDS BY
TRANSPORT OPERATORS FOR RATE HIKES AND DESIRE TO HEAD OFF
GROWING CRITICISM OF 24 PERCENT STABILIZATION LEVY ON GAS ALSO
MAY HAVE FORCED HIS HAND. HS POLEMICS ON TEXACO AT PRESS CON-
FERENCE (PARAG 2) ARE INDICATIVE OF RIGIDITY AND HOSTILITY
TEXACO CAN EXPECT TO ENCOUNTER IN ANY FURTHER TALKS ON PRICING
ISSUE. FINALITY OF NEW PRICE DECREE SEEMS TO PRESENT TEXACO
WITH FAIT ACCOMPLI WHICH COULD PRECLUDE MENAINGFUL DISCUSSION OF
PRICING AT THIS TIME, BUT WE BELIEVE THE DOOR IS STILL OPEN
ON REMAINING ISSUES. ANNOUNCED OPEC INCREASE NEXT JUNE GIVES
TEXACO ANOTHER OPPORTUNITY TO TAKE UP PRICING ISSUE WITH GOH.
MEANWHILE, THE COMPANY MIGHT FIND IT IN THEIR INTEREST TO LET
THE ISSUE COOL DOWN AND FOCUS ON MID-1977 SUBMISSION. ASIDE
FROM THE MINISTER FINDING THE ISSUE ANNOYING, HE IS SHORT-HANDED
WITH RESIGNATION OF VICE-MINISTER ROBERTO VALLADARES AND
ANOTHER KEY OFFICER AND IS CONFRONTED WITH EITHER IMPORTANT
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PAGE 02 TEGUCI 00898 02 OF 02 241856Z

ECONOMIC PROBLEMS.
BECKER

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Message Attributes

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